

MINUTES  
ECONOMIC POLICY COUNCIL

August 8, 1985  
2:00 p.m.  
Roosevelt Room

Attendees: Messrs. Baker, Shultz, Block, Baldrige, Yeutter, Sprinkel, Darman, Ford, Kingon, McAllister, Porter, Oglesby, Speakes, Svahn, Keel, Khedouri, Low, McMinn, Moore, Robinson, Smart, Smith, Stucky, and Wallis, and Ms. Dole.

1. Section 201 Nonrubber Footwear Petition

Ambassador Yeutter stated that two more options have been developed for the Council's consideration in the Section 201 nonrubber footwear case: a quota with orderly market agreements (OMAs); and a tariff beginning at 35 percent and declining steeply over three years. He noted that the tariff, even if set at 35 percent, probably would not significantly reduce shipments from abroad, as exporters would absorb the costs.

He outlined the advantages and disadvantages of orderly market agreements. The major advantages of OMAs are that, unlike tariffs, they would provide a definite level of protection and afford more flexibility in dealing with developing countries having difficulties in servicing their external debts, such as Brazil. The disadvantages of OMAs are the likelihood that exporters will upgrade their products as the Japanese did under the voluntary restraint agreement on autos; the fact that the economic rents would not accrue to the Federal Government, as they would with tariffs; and the absence of readily apparent pain, such as higher prices, which might lead some to believe there is no cost to protectionism. A final difficulty is allocating the orderly marketing agreements; there is the potential of seriously harming a number of developing countries exporting a relatively small amount of shoes into the U.S.

Mr. Oglesby reported that September is going to be a difficult time for the Administration in dealing with protectionist legislation from the Congress. The debt ceiling increase and a possible continuing resolution are potential vehicles for protectionist measures. He stated that the Administration must have a trade policy statement to defend our position and noted that a presidential speech would be helpful. Our free trade allies in Congress are in a difficult position on the footwear case because the International Trade Commission (ITC) has found injury and recommended a quota.

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The Council discussion focused on the value of providing relief for the domestic footwear industry as a means of resisting more harmful protectionist measures, such as the textile legislation. Mr. Shultz argued that if the Administration provides relief for the shoe industry, for which the Council agrees that there is no economic justification, then it will be difficult to draw the line on any other measures. Mr. Baldrige stated that because the President has overturned the last three ITC recommendations for relief, foreign exports make up 77 percent of the domestic shoe market, and that the ITC has recommended relief, Congress will interpret a decision to not provide relief as a signal that the Administration will never take any trade initiatives. Ambassador Yeutter stated that he has been warned by Congressional leaders that if the Administration fails to provide relief to the footwear industry, Congress will pass lumber and textile protection bills.

The Council also discussed the possible timing and tone in announcing a Presidential decision, particularly a decision not to provide relief. Mr. Darman suggested that the option of no relief be enhanced by combining such a decision with possible fair trade initiatives, such as self-initiating Section 301 investigation.

#### Decision

Secretary Baker asked that the options for the President be revised and reduced to three: (1) providing no relief, and (1a) simultaneously announcing that the Administration will self-initiate Section 301 investigations; (2) adopting the ITC quota recommendation; and (3) adopting a 30 percent tariff, declining over 5 years. The option of relying on OMAs was dropped.